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UNCLAS LILONGWE 000227

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SUBJECT: DEBT PROPOSAL A PLEASANT SURPRISE FOR MALAWI

REF: STATE 31823

1. (SBU) Over the past week, Embassy has discussed the relative merits of the U.S. and U.K. proposals for debt relief to poor countries (reftel) with senior Malawian officials in ministries of finance, foreign affairs, and economic planning. To a person, our interlocutors have been unaware of even the broad outlines of either position. They appeared to know only that the U.K. has a proposal to relieve debt, and that the U.S. opposes it. This grasp of the issue reflects locally available news coverage of the issue, which is dominated by BBC and Reuters.

2. (U) The GOM officials we talked to expected a harsh U.S. position, offering little relief and heavy conditions. On hearing the main points of our proposal, they expressed surprise, appreciation, and some degree of suspicion. The Secretary to the Treasury responded to our presentation by

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asking, "What's the catch?" His suspicion centered on the possibility of added conditionalities; on further discussion, it appeared that the sound-policy conditionality of the Highly Indebted Poor Countries (HIPC) program would be acceptable. Everyone we briefed was puzzled that the USG has taken a low-profile approach to publicizing such an attractive proposition.

3. (SBU) All the officials we briefed are trained economists, and all saw drawbacks to the U.K. position when we explained the main points of difference. Predictably, they considered the plan to pay debt service, rather than forgive the principal, to address the problem only for the short run, perhaps encouraging irresponsible spending that would compound the problem in the long run. They also appeared to dislike the notion of borrowing against future aid payments--an approach they said would likely lead to fiscal misbehavior.

4. (SBU) COMMENT: The U.S. debt relief proposal fits well with the GOM's current fiscal program, which aims at putting the country back on a sound footing after a decade of irresponsible borrowing and spending. The officials we spoke with--senior civil servants--are leary of debt solutions that take a "buy now--pay later" approach; they understand the hazards all too well. They appear to want to get rid of foreign debt and keep it off their books, so the U.S. approach has great appeal. Malawian politicians, on the other hand, may find irresistible the promise of lots of money now with no payback for ten years. Such a plan puts the pain well over the political horizon, and it could tempt even the most stalwart disciplinarian.

GILMOUR